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Message Text

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TO AMEMBASSY LIBREVILLE

C O N F I D E N T I A L STATE 211122

E.O. 11652: N/A

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SUBJECT: CREDITWORTHINESS OF GABON

1. FOR SOME TIME THE FRENCH HAVE BEEN ISSUING WARNINGS TO OTHER BERNE UNION MEMBERS ABOUT GABON'S RISING DEBT AND FINANCIAL DIFFICULTIES. THE LATEST MESSAGE FROM COFACE/DIRLATEX, IN REPLY TO AN EXIMBANK INQUIRY REGARDING CONSTRUCTION OF THE OWENDO-SANTA CLARA RAILROAD SPUR LINE, IS AS FOLLOWS: QUOTE. WE HAVE NOT BEEN APPROACHED ON THIS PROJECT, BUT IN 1974 WE HAVE GUARANTEED, ON A CASH BASIS, THE CONTRACT FOR THE FIRST TWO SEGMENTS OF THE
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RAILROAD BETWEEN OWENDO AND FRANCEVILLE. WE ARE NOW FACED WITH IMPORTANT PAYMENT DIFFICULTIES IN THIS CONTRACT WHICH ARE DUE TO THE WORRISOME FINANCIAL SITUATION OF THE GABONESE REPUBLIC. IN VIEW OF THIS, WE THINK THAT THE NEW INVESTMENTS, CONSIDERED AS EXTENSIONS OF THE FIRST TWO PHASES OF THE TRANSGABONESE RAILROAD, NAMELY THE SPUR-LINE BETWEEN OWENDO AND SANTA CLARA AND THE FIRST PHASE OF THE MINERAL PORT OF SANTA CLARA, SHOULD BE EVALUATED WITH GREAT CAUTION AND THEIR IMPLEMENTATION DELAYED UNTIL

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A PRECISE AND COMPREHENSIVE ACCOUNT OF THE FINANCIAL OBLI-
GATIONS OF GABON HAS BEEN DRAWN UP AND SOLUTIONS FOUND
TO THE PROBLEMS OF GABON'S EXTERNAL DEBT. END QUOTE.

2. IN A TELEX AT BEGINNING AUGUST, COFACE EXPLAINED
THEIR ATTITUDE AS STEMMING FROM (A) THEIR EXPOSURE, IN MAY
L977, OF DLRS 907 MILLION PLUS OUTSTANDING OFFERS OF DLRS
263 MILLION, (B) THE APPEARANCE OF IMPORTANT ARREARAGES
BY PUBLIC BUYERS, AND (C) THE COUNTRY'S WORSENING FINANCIAL
SITUATION.

3. ACCORDING TO OUR INFORMATION, GABON'S EXTERNAL DEBT,
PUBLIC AND PUBLICLY GUARANTEED, DISBURSED AND UNDISBURSED,
WAS DLRS 1,168 MILLION ON DECEMBER 31, 1976, AND DLRS
1,272 MILLION ON JUNE 30, 1977. REPAYMENT IS RELATIVELY
SHORT-TERM IN THAT 72 PERCENT OF THIS DEBT WOULD FALL DUE
BETWEEN 1977 AND 1981. NEW BORROWINGS ARE PLANNED AS
FOLLOWS: DLRS 262 MILLION IN 1977, DLRS 240 MILLION IN
1978, DLRS 260 MILLION IN 1979 AND DLRS 260 MILLION IN
1980. SERVICE ON EXISTING AND NEW DEBT WOULD REQUIRE 25
PERCENT OF EXPORT EARNINGS IN 1977, 26 PERCENT IN
1978, 24 PERCENT IN 1979 AND 22 PERCENT IN 1980. IN
THIS CALCULATION EXPORTS HAVE BEEN PROJECTED AS FOLLOWS:
DLRS 1,232 MILLION IN 1977, DLRS 1,352 MILLION IN 1978,
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DLRS 1,524 MILLION IN 1979 AND DLRS 1,776 MILLION IN 1980.

4. WE CONCUR WITH THE FRENCH THAT THE DEBT SERVICING
BURDEN OF GABON IS VERY HIGH AND AT THE LIMIT OF PRUDENCE.
HOWEVER, ASSUMING THE ABOVE FIGURES ARE ACCURATE, WE
THINK THAT GABON CAN MANAGE THE EXISTING AND NEW DEBT AS
PROJECTED ABOVE WITHOUT RUNNING INTO A FINANCIAL IMPASSE
REQUIRING A RESCHEDULING.

5. OUR APPROVAL OF THE AIRCRAFT FOR AIR GABON AND OUR
EVALUATION OF A REQUEST BY MORRISON-KNUDSEN FOR SUPPORT OF
A DLRS 25 MILLION CONTRACT FOR THE SPURLINE ARE BASED IN
PART ON THE FACT THAT THE FIRST REPAYMENT INSTALLMENTS
ON THE EXIMBANK DIRECT FINANCING OR GUARANTEED FINANCING
WOULD FALL DUE AFTER 1979, WHEN GABON'S DEBT SERVICING
BURDEN SHOULD BEGIN TO EASE.

6. WOULD GREATLY APPRECIATE EMBASSY'S COMMENTS ON THE
ACCURACY AND COMPREHENSIVENESS OF ABOVE FIGURES AND ITS
ASSESSMENT OF GABON'S DEBT SITUATION. WE ALSO WOULD
APPRECIATE ANY INFORMATION EMBASSY MAY HAVE REGARDING EX-
TRAORDINARY FRENCH LOANS ESSENTIALLY FOR PURPOSE OF EASING
SHORT-TERM PUBLIC DEBT TO FRENCH ENTERPRISES AND BANKS
AND THE STATUS OF THE OCTRA DEBT TO THE FRENCH.

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7. FYI: EXIMBANK EXPOSURE IN GABON WAS AS FOLLOWS ON JULY 31, 1977 (000): DLRS 1,331 SHORT TERM, DLRS 7,326 MEDIUM-TERM, AND DLRS 44,185 LONG-TERM, PLUS DLRS 6,148 INTEREST PAYABLE ON DIRECT LOANS, FOR TOTAL OF DLRS 58,990. ONLY PENDING TRANSACTION IS OWENDO-SANTA CLARA SPUR LINE WHICH WOULD INCREASE EXPOSURE BY DLRS 12,500. CHRISTOPHER

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